

Memorandum

TO : Honorable Betty T. Yee, Chairwoman
Honorable Judy Chu, Ph. D., Vice Chair
Honorable Bill Leonard
Honorable Michelle Steel
Honorable John Chiang, State Controller

DATE: January 29, 2008

FROM : Liz Houser, Deputy Director 
Administration Department

SUBJECT : **New York District Office Lease**

This information is provided as a briefing to facilitate approval of our request to authorize the Department of General Services (DGS) to complete a lease transaction for the New York District Office.

Current Lease Term:	December 18, 1998 through December 31, 2008 10-year firm term
Total Square Footage:	18,983
Annual Rent:	\$738,629

The following options have been developed by the DGS, BOE Field Operations Chief and program staff as the site search committee for purposes of leasing a New York District Office. The options are ordered in priority of recommendation:

Option 1: Identify other New York locations. The Sales and Use Tax Department along with the Business Services Office and the DGS visited several locations and evaluated the opportunities available. The locations evaluated offered rents of \$60.00 to \$68.00 per rentable square foot, which includes tenant improvement costs up to a specified allowance. The New York market varies significantly in usable versus rentable square footage causing large differences in annual rent requirements.

Option 2: Remain in current location: The current Lessor will not negotiate reducing the existing space to meet the District Office space needs. If BOE were to consider a short term lease the Lessor has stated that he will recalculate the net rentable square footage thereby increasing our annual rent to \$988,302. This cost does not include necessary tenant improvements such as a new telephone system (current system failing), new carpet, paint, etc., and does not include utility costs as provided under the current lease. Additionally, the Lessor provides no stability to BOE for long term lease needs. The Lessor has provided the primary tenant first right of refusal for this space leaving BOE with the potential risk of eviction.

Option 3: Co-locate with the FTB Field Office in New York. FTB just completed a consolidation and negotiated a new lease. BOE could not participate in this transaction due to the current lease termination date. Currently, FTB has no available space to meet the BOE District Office needs.

Two locations provided the most viable solutions available for the District Office operations while remaining within an acceptable annual rent rate.

- 1) The Lexington Avenue location in the Grand Central area offered optimum design in a good location. The building is a newer facility and houses other city government

offices with similar business operations. The Lessor is willing to offer 8,242 square feet of space for 10 years with no rent escalations at a cost of \$875,000 annually plus a negotiated portion of the tenant improvement costs over the life of the lease. (Utility costs estimated at \$30,000 annually not included in the rent rate.) This offer is comparable to other rent rates in more recent lease transactions in the area. Additionally, the Lessor is offering to amortize the tenant improvement costs over what is provided by the Lessor as a part of the lease agreement.

- 2) The Penn Station area had one office that could meet the needs of the District Office however a formal design calculation would be required to determine rentable versus usable square feet. This will significantly impact the annual rent rate and the available space is on the penthouse floor with large curved windows. This design feature will likely increase the utility costs per month and the floor layout is not optimum for required changes to meet the District Office operations.

Cost Comparisons:

Option 1:	\$875,000 (plus utility costs)
Option 2:	\$988,302 (plus additional costs noted above)
Option 3:	Not Available to BOE

Recommendation Selected: Option 1; secure a lease at the Lexington Avenue Grand Central area location. The Lessor is willing to provide the most financial incentives compared to other Lessors in the New York market and the space provides for optimum design without unusable rentable space. The current New York market provides little incentives to tenants as inducements to complete a lease negotiation and requires large commitments from tenants in order to finalize the lease transactions.

Steps to Complete the Lease Transaction

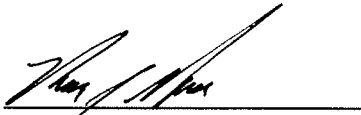
- 1) An Estimate of Occupancy Cost (RESO 10) has been approved by the Department of Finance. (This action is required before the Department of General Services or the Board of Equalization can proceed with the required site searches.) This step has been completed.
- 2) A Space Action Request (Std. 9) has been submitted to the Department of General Services along with specific program data documents in order to begin the site search. This step has been completed.
- 3) It is now requested of the Board Members to authorize DGS to proceed with securing the lease for final execution of the lease agreement. Pending approval.
- 4) Once the lease is executed and signed by the DGS and Lessor each Board Member will be provided a copy of the fully executed lease. It is anticipated with Board approval at the January meeting that the lease can be executed within the next 30 days.
- 5) After receipt of the fully executed lease the Administration Department will begin coordinating tenant improvements for the new space with the Lessor and DGS. Time for construction to be determined with the Lessor.

- 6) If the above steps 3 and 4 are completed the Lessor expects to have the tenant improvements completed allowing the District Office to schedule moves for July 2008.

Recommendation:

It is the recommendation of the Administration Department that the Board approve Option # 1, for the completion and final execution of a lease for the New York District Office for the Lexington Avenue location in the Grand Central area. This recommendation provides the greatest stability for the New York District Office and is estimated to provide a savings of approximately \$113,000 annually over the projected new rate at the current location.

Approved:



Ramon J. Hirsig
Executive Director

CY:aw

cc: Ms. Marcy Jo Mandel
Mr. Alan LoFaso
Mr. Steve Shea
Ms. Barbara Alby
Mr. Erik Caldwell
Mr. Ramon J. Hirsig
Ms. Kristine Cazadd
Ms. Randie Henry
Mr. David Gau
Ms. Anita Gore